ASX Announcement

6 November 2017

Orica delivers sound 2017 financial result in difficult conditions

Melbourne: Orica (ASX: ORI) today announced a sound full year result, with statutory net profit after tax (NPAT) of $386 million, 13 per cent higher than 2016[1]. Earnings before interest and tax (EBIT) of $635 million was in line with the prior corresponding period (pcp).

Orica CEO Alberto Calderon said: "Throughout the year we continued to face substantial headwinds, including contractual increases in raw material costs, foreign exchange impacts and price resets as long dated customer contracts were renewed at current market prices. Despite these challenges, our continued focus on core disciplines and a program of business improvement initiatives enabled us to deliver a sound result. In fact, this is the first year since 2012 that Orica has delivered a steady EBIT result against the prior year."

Safety is the most critical priority for Orica. Two accidents in the year tragically led to the deaths of two employees – one at a customer site in Peru and another at an Orica manufacturing facility in Sweden. The management and oversight of all major hazards has been reviewed and updated across every Orica site. Orica's leadership team will continue to prioritise safety always.

Key features of the 2017 Result include:

- Total ammonium nitrate (AN) volumes of 3.65 million tonnes, up 3 per cent on the pcp
- EBIT before individually material items of $635 million, down 1 per cent on the pcp
- NPAT before individually material items of $386 million, down 1 per cent on the pcp[2]
- Statutory NPAT of $386 million, up 13 per cent on the pcp
- Business improvement initiatives delivered net benefits of $127 million
- Capital expenditure of $306 million, up 16 per cent on the pcp, but well within our previously stated annual range of $300 million to $320 million
- Net operating and investing cash flows of $215 million (pcp $633 million)
- Net debt of $1.4 billion and gearing at 33 per cent (pcp 36 per cent)
- Final ordinary dividend of 28 cents per share (55 per cent payout ratio), unfranked, and representing a full year payout ratio of 50 per cent and a total dividend for the financial year of 51.5 cents per share, an increase of 4 per cent on the pcp.

"While the mining sector has begun to recover and mine plans are beginning to normalise, the 2017 year continued to be challenging, with substantial headwinds across every region. In this environment, increasing our AN volumes and delivering significant net benefits from our business improvement initiatives, has been a very good result," Mr Calderon said.

Business improvement initiatives

Business improvement initiatives offset the known headwinds experienced during the year, including increases in raw material costs that cannot be recovered from existing contracts (in particular, gas and ammonia), as well as the impact of low pricing across explosives and cyanide products, and the impact of the Australian dollar exchange rate rising against most major currencies.

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[1] FY2016 Results included Australian Taxation Office Part IVA dispute settlement of $41 million, $16 million benefit from the sale of Thai Nitrates Company, and a $21 million expense in relation to the Chile plant explosion in September 2016.

[2] There were no individually material items in FY2017.

The program in generating these initiatives has involved more than four thousand Orica people across the whole business, with varied and wide-reaching initiatives designed to improve the way Orica operates.

"The business improvement program is focused on embedding new ways of working that make Orica a better business by buying better, producing more efficiently, and bringing more value to our customers. This is starting to deliver material results, with initiatives across every part of Orica that generate revenue, reduce costs, and make us a more effective and efficient organisation," Mr Calderon said.

Operations

Volume and EBIT performance across the four regions was mixed, although total AN and emulsion volumes increased in every region except North America.

In Australia Pacific and Indonesia, Orica's largest region, total AN and emulsion volumes were up 10 per cent against the pcp, driven by increased demand across both Australia and Indonesia, with strong demand from Australian coal and iron ore miners off the back of stronger prices for those commodities. Sales of initiating systems also increased in line with AN demand, while cyanide volumes were ahead of the pcp. Improved sales volumes and business improvement initiatives drove a 9 per cent increase in EBIT on the pcp.

Across North America, overall explosives volumes were 4 per cent lower than the pcp, driven mainly by a US joint venture partner sourcing bulk AN directly from the manufacturer. However, we had increased volumes in Canada and Mexico as a result of new contract wins and higher output at customer sites, as well as increased volumes into the US quarrying and construction sector. EBIT declined 5 per cent, led by the unfavourable impact of foreign exchange from a weaker US dollar, and an extended maintenance shutdown of our Carseland manufacturing facility.

Overall explosives volumes across Latin America were up 4 per cent against the pcp, while cyanide volumes were 13 per cent higher than the pcp. The experience across the various countries in the region was varied, with Colombia volumes up as a result of the expansion of customer operations, while volumes in Peru decreased as a result of contract losses in 2016. While overall volumes increased across Latin America over the period, EBIT fell by 11 per cent as a result of higher sourcing costs associated with replacement product and price resets on contract renewals.

Across Europe, Africa and Asia, explosives volumes increased 3 per cent against the pcp, aided by the recovery in regional European markets and from growth in customers' operations, particularly in CIS, Norway and Estonia. Volumes in Africa benefited from strong demand in Southern Africa. Reduced activity in South East Asian tunnelling markets and a slowdown in customer mining activity in the Philippines negatively affected volumes. Cyanide volumes in the region fell as a result of a lost contract in Africa. Lower plant utilisation and higher product sourcing costs following a fatal explosion at Gyttorp in Sweden, together with weaker cyanide volume and margin, lower activity in niche tunnelling markets and divestments in 2016 have adversely impacted EBIT, which decreased 13 per cent against the pcp. Higher overall volumes across the region and business improvement initiatives partially mitigated the decline.

Minova's turnaround continues, albeit at a slower pace than initially expected. Volumes and EBIT both increased substantially versus the pcp, with steel products volumes up 17 per cent, resins and powders 12 per cent higher, and EBIT improved across every region. A strong pipeline of opportunities exists as Minova continues to expand into complementary markets and segments.

Capital Management

Capital Expenditure

Capital expenditure of $306 million was well within the previously stated annual range of $300 million to $320 million. This included scheduled maintenance shut downs and turnarounds at Kooragang Island, Carseland and Yarwun Cyanide manufacturing facilities.

Capital expenditure on the Burrup plant was $28 million, with the final investment made in September 2017. Mechanical commissioning of the plant has been completed with the plant meeting all environmental requirements at nameplate capacity and design efficiency. All the necessary Commonwealth approvals to commence production have now been received, with final State government approval expected in the first half of FY18. Operational plans remain unchanged, with a focus on campaign production in line with market demand. The Burrup plant is a 30 year asset, strategically located in the Pilbara region in Western Australia, a market with a strong growth profile.

Dividend

Orica's dividend policy of a payout range of 40 per cent to 70 per cent enables flexibility and ensures that shareholder returns reflect the Company's position and market conditions.

The Board has declared an unfranked final ordinary dividend of 28 cents per share. The dividend represents a payout ratio of 55 per cent and brings the full year payout ratio to 50 per cent. The dividend is payable to shareholders on 8 December 2017 and shareholders registered as at the close of business on 15 November 2017 will be eligible for the final dividend. It is anticipated that dividends in the near future will be franked at a rate of no more than 35 per cent.

Outlook

"In 2017 the mining sector began to recover from the severe downturn that began in 2015. We expect this recovery and the normalisation of long term mining plans that it implies to continue in 2018. However, there will be a lag before this makes a material difference to the services sector," Mr Calderon said.

There will be a continued focus on business improvement initiatives that improve profitability and shareholder value.

Key assumptions for FY18 are:

- Global AN product volumes in the range of 3.65 million tonnes ± 5%.
- FY17 headwinds to extend into FY18:
  - ~$50 - $55 million impact from contract rollovers and FY17 price resets flow on; and
  - ~$10 million flow on impact from FY17 increased input costs from previously negotiated contracts.
- Increased investment in operating expenditure in Technology R&D and IT of ~$40 million.
- FY17 business improvement initiative benefits and expected FY18 new business improvement initiatives to offset above headwinds and support increased investment for the future.
- Capital expenditure will be at the upper end of stated range of ~$300 - $320 million.
- Increased depreciation and amortisation post Burrup commissioning.
- Effective tax rate (excluding individually material items) to be marginally higher than FY17.
- Following completion of the Burrup plant, interest will no longer be capitalised, resulting in an increased interest expense.

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Orica Limited

Results for the year ended 30 September 2017

Orica delivers sound 2017 financial result in difficult conditions

Statutory net profit after tax (NPAT) attributable to the shareholders of Orica for the year ended 30 September 2017 was $386 million

Summary

- Tragically, Orica had two fatalities during the year in Peru and Sweden
- EBIT before individually material items(1) of $635 million, down 1% on the prior corresponding period (pcp)
- NPAT before individually material items(2) of $386 million, down 1% on the pcp
- Ammonium nitrate volumes up 3% on the pcp at 3.65 million tonnes
- Net operating and investing cash flows(3) of $215 million, led by increased investment in plant turnarounds
- Capital expenditure of $306 million(4), up 16% on the pcp
- Net debt(5) of $1.4 billion and gearing(6) at 33%
- Final dividend of 28 cents per share, bringing the full year dividend to 51.5 cents per share

Group Results

Year ended 30 September	2017 A$M	2016 A$M	Change %
Sales revenue	5,039.2	5,091.9	*(1%)*
EBITDA(7)	896.3	908.1	*(1%)*
EBIT(1)	**635.1**	**642.2**	***(1%)***
Net interest expense	(71.7)	(84.3)	*(15%)*
Tax expense	(164.0)	(156.7)	*5%*
Non-controlling interests	(13.2)	(12.1)	*9%*
NPAT before individually material items(2)	**386.2**	**389.1**	***(1%)***
Individually material items after tax	-	(46.3)	*(100%)*
NPAT after individually material items (statutory)	**386.2**	**342.8**	***13%***

Note: numbers in this report are subject to rounding and stated in Australian dollars unless otherwise noted

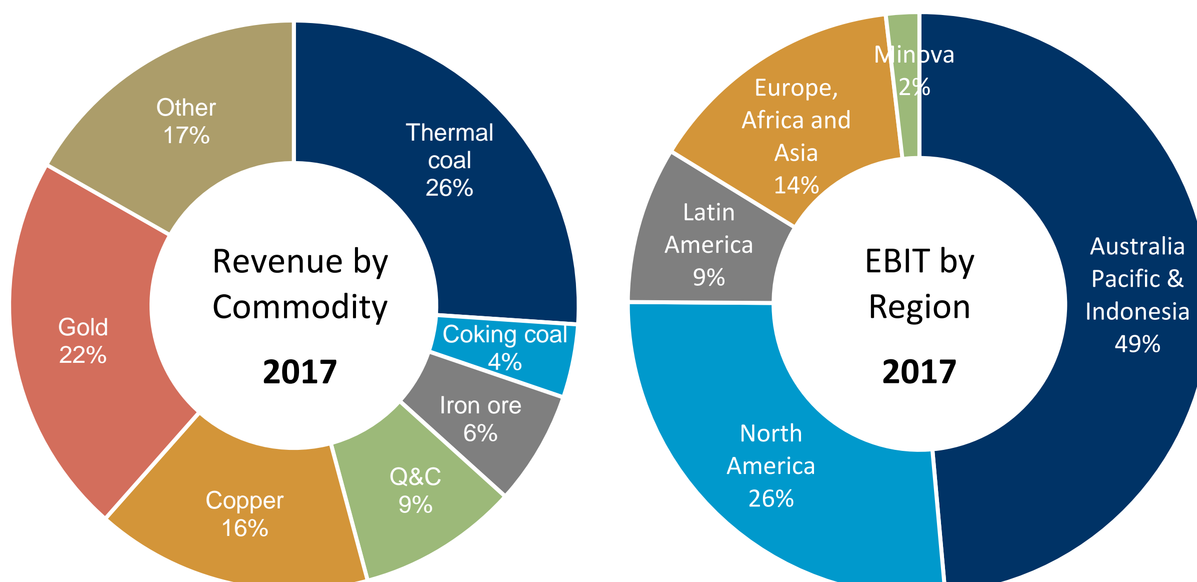
Business Summary

A summary of the performance of the segments for the 2017 and 2016 financial years is presented below:

Year ended 30 September 2017 A$M	AN Tonnes (i) ('000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia, Pacific and Indonesia	1,322	1,565.2	461.1	343.5	143.6
North America	1,121	1,362.8	223.8	187.5	48.0
Latin America	637	915.9	86.7	61.3	20.7
Europe, Africa and Asia	570	1,026.3	132.9	101.7	30.1
Minova	-	455.6	22.2	13.1	9.0
Global Support	-	990.6	(30.4)	(72.0)	54.6
Eliminations	-	(1,277.2)	-	-	-
Orica Group	**3,650**	**5,039.2**	**896.3**	**635.1**	**306.0**

Year ended 30 September 2016 A$M	AN Tonnes (i) ('000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia, Pacific and Indonesia	1,204	1,544.7	440.5	315.1	113.0
North America	1,166	1,360.0	237.9	196.5	44.4
Latin America	615	920.0	94.3	69.2	20.2
Europe, Africa and Asia	556	1,141.3	151.7	116.5	36.5
Minova	-	406.5	15.2	0.1	5.6
Global Support	-	882.0	(31.5)	(55.2)	43.2
Eliminations	-	(1,162.6)	-	-	-
Orica Group	**3,541**	**5,091.9**	**908.1**	**642.2**	**262.9**

(i) Includes AN (ammonium nitrate) prill and solution as well as emulsion products including bulk emulsion and packaged emulsion
(ii) Includes external and inter-segment sales



Note: The above charts exclude Global Support and Eliminations

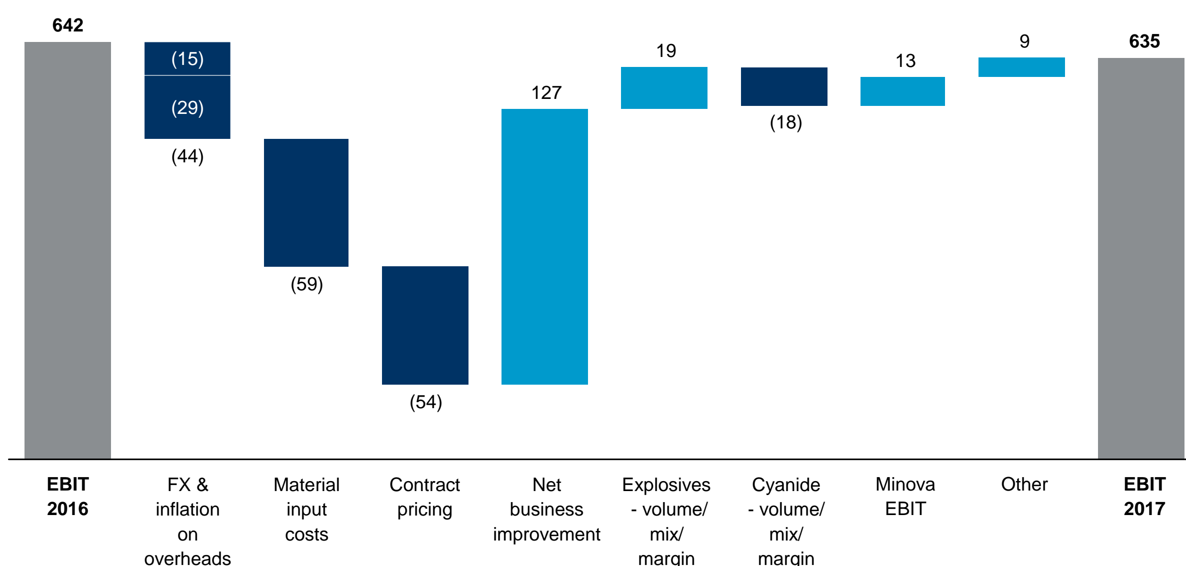
Review of Operations

Safety is the most critical priority for Orica. Tragically, there were two fatalities during the year. In February, an accident on a customer mine site in Peru resulted in the death of an employee. In May, another fatal accident occurred at the Gyttorp production facility in Sweden, resulting in the death of an employee. Full investigations were undertaken and a major hazards initiative program has been implemented focusing on identifying the few major hazards that could lead to serious harm. Our policies, standards and procedures define actions to achieve this aspiration by: always being mindful of risk; ensuring our people are capable and empowered; and focusing on always improving. Orica's leadership team will continue to prioritise safety always.

Ammonium nitrate (AN) volumes for 2017 were 3.65 million tonnes, up 3% on the pcp. Sales into coal markets across Australia and North America improved due to normalisation of mining practices and market growth. Demand from the gold sector remained stable and in line with commodity pricing. Activity in the Quarry and Construction (Q&C) market, particularly in North America, was up due to increased activity on infrastructure projects.

Despite the higher AN sales volumes, sales revenue at $5 billion was down 1% on the pcp. This was due to a combination of lower input commodity indices impacting rise and fall arrangements, customer price negotiations and the appreciation of the Australian Dollar (AUD) against most major currencies. EBIT was $635 million, down 1% on the pcp.

Known headwinds as a result of contractual increases in raw material costs, in particular gas and ammonia, as well as the impact of pricing across explosives and cyanide products, have been offset by business improvement initiatives. Whilst foreign exchange has had an adverse impact on the translation of foreign denominated earnings into AUD the benefit of increased volumes from the Australia Pacific & Indonesia segment has contributed to EBIT.



Key items in the above chart:

FX & inflation on overheads
Inflation on fixed cost overheads had an adverse effect of $29 million. The AUD exchange rate appreciated against most major currencies, adversely impacting earnings by $15 million in 2017.

Material input costs
Contracted increases in gas and ammonia prices reduced margins by $59 million from the pcp.

Contract pricing
The negative contract pricing impact of $54 million was slightly below expectations and aligned with current market conditions. Oversupply in domestic and global ammonium nitrate and cyanide markets has kept prices subdued compared to historical levels, however prices have stabilised over the past six months. The key contributor of pricing impacts during the year was the continued renewal and alignment of existing contracts to current market prices. Orica remains focused on maintaining a balanced outlook between retaining market share and securing plant loading.

Net business improvement
The business improvement program is focused on embedding new ways of working that fundamentally make Orica a better business by buying better, producing more efficiently, and selling more effectively. This is starting to deliver real and material results, with initiatives across every part of Orica that generate revenue, reduce costs, and make us a more effective and efficient organisation. The net EBIT contribution from business initiatives in 2017 was $127 million, with sustainable benefits from:

- Supply Chain, including third party product cost savings, network optimisation, transport & shipping efficiency
- Product differentiation & service offering, including placement of advanced explosive and detonator products
- Manufacturing plant optimisation
- Overhead cost base efficiency

Explosives – volume/mix/margin
Volume, mix and margin drove $19 million of incremental EBIT, largely from higher sales volume, in Australia Pacific & Indonesia. Continued diversification and market placement of premium products across all regions, including bulk emulsion and Electronic Blasting Systems (EBS), ensured a favourable product mix shift during the year. Margin was unfavourably impacted by the extended turnarounds at the Kooragang Island ammonia and Carseland AN plants which drove unfavourable sourcing costs of replacement product, as well as the incident at Gyttorp.

Cyanide – volume/mix/margin
Cost increases in key manufacturing inputs, particularly gas, have decreased cyanide margins. In addition, a planned turnaround of the Yarwun plant in March resulted in lower production volumes.

Minova
Minova achieved improved earnings, largely due to a profit from the divestment of a business in China, improved market conditions, particularly in Australia Pacific and US coal and construction markets and procurement savings from supply chain initiatives.

Other
Other includes the non-repeat of one off costs in 2016.

Australia Pacific & Indonesia

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	1,322	1,204	10%
Emulsion as a % of total volumes	*59%*	*58%*	*1pt*
Total sales revenue	1,565.2	1,544.7	1%
EBITDA	461.1	440.5	5%
EBIT	343.5	315.1	9%

Commodity exposure

Thermal and coking coal represents the largest commodity exposure at 52%, reflecting Orica's extensive customer footprint and positioning across Eastern Australia and Indonesia. Sales into this segment were up, as production has increased on the back of increasing demand and industry sentiment. Sales into gold markets remained steady as average gold prices have been relatively stable on the pcp. Demand from iron ore customers in the Pilbara has grown as production has increased on the back of stronger Chinese steel demand and production.

Volumes

Explosives volumes were up 10% (118kt), underpinned by stronger demand in both Australia and Indonesia. Australia benefited from strong demand from coal and iron ore miners, while Indonesian sales volumes increased across a range of commodities. Indonesia has benefited from contract wins since the second half of 2016, albeit at lower margins. Coal customers increased production in line with their existing capacity as metallurgical coal prices rose on the back of Chinese supply side reforms and environmental policies. Pilbara iron ore volumes were up as favourable demand and pricing movements led to increased activity and mining at higher strip ratios.

Sales of initiating systems, both EBS and conventional detonators, increased broadly in line with AN demand improvement across the region. Cyanide volumes were slightly ahead of the pcp.

EBIT performance drivers

Whilst the Australia Pacific & Indonesia business has been impacted by known headwinds including increased raw material costs and further price resets and contract renewals in 2017, these have been more than offset by improved volumes from mine plan normalisation, and business improvement initiatives resulting in a 9% increase in EBIT on the pcp.

Volume, mix and margin was overall favourable, driven largely by an increase in volumes and contract wins, business improvement initiatives reducing manufacturing and supply chain costs, and optimisation across the operational and support workforce.

Contribution from explosives products was up, driven by higher AN sales volumes across key markets. Manufacturing costs at Kooragang Island were unfavourable versus the pcp due to higher gas costs and lower plant utilisation. Utilisation was down due to an extended plant turnaround, following unforeseen asbestos removal. This was partly offset by lower third-party ammonia input costs at Bontang and Yarwun.

Contribution from cyanide was unfavourable versus the pcp, primarily due to pricing pressure from increased competition, higher domestic gas prices impacting manufacturing costs and lower plant utilisation as a result of the scheduled plant turnaround.

Price resets and contract renewals had a negative impact, however this was in line with expectations. The oversupply in domestic and global ammonium nitrate and cyanide markets continues to place pressure on pricing.

North America

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	1,121	1,166	*(4%)*
Emulsion as a % of total volumes	*45%*	*39%*	*6pts*
Total sales revenue	1,362.8	1,360.0	*0%*
EBITDA	223.8	237.9	*(6%)*
EBIT	187.5	196.5	*(5%)*

Revenue by Commodity 2017: Other 21%; Thermal coal 11%; Coking coal 4%; Iron ore 7%; Q&C 18%; Copper 11%; Gold 28%

Commodity exposure

Sales to the largest markets, Gold and Q&C, remained strong due to firm gold prices and continued strong activity in infrastructure projects, particularly in the US. Sales into 'Other' markets were up on the pcp due to a new AN bulk contract supplied from Carseland. The decrease in thermal coal reflects changes in joint venture partner sourcing arrangements.

Volumes

Overall explosives volumes were down on the pcp, driven by a decline in the US, as a joint venture partner sourced bulk AN directly from the manufacturer. US volumes were further impacted by indirect channels as a result of a contract loss during the year, however ongoing infrastructure activity in the US drove higher volumes into the Q&C market. Volumes in both Canada and Mexico were up against the pcp, underpinned by key contract wins and higher output at customer operations.

Product mix was favourable across the AN portfolio, given higher sales of premium emulsion products into Q&C and Canadian markets.

EBIT performance drivers

The impact of contractual headwinds from increases in the cost base and price impact of contract renewals were largely offset by business improvement initiatives and enhanced placement of advanced products and services offerings. The 5% decline in EBIT from the pcp was led by the unfavourable impact of foreign exchange from the weaker USD, and the extended Carseland plant turnaround.

Volume, mix and margin was impacted in the second half by the extended turnaround of the Carseland plant, which was prolonged by the delay in external supply of utility services. This delay was caused by the extended closure of the neighbouring third-party supplier's plant. A supply shortage of non-electric detonators, resulting from lower component production in Latin America further impacted margin in the second half, driving higher product substitution costs. Furthermore, committed contractual increases in third party AN product costs in the US also adversely impacted the cost base. This was partly mitigated by business improvement initiatives across procurement activities, efficiencies in logistics and a shift into more advanced products and services.

Price resets and contract renewals had the expected negative impact during the year, from both contract renegotiations finalised in the 2016 financial year with gold and copper customers in Canada, and new contract negotiations in 2017.

Latin America

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	637	615	*4%*
Emulsion as a % of total volumes	*68%*	*64%*	*4pts*
Total sales revenue	915.9	920.0	*0%*
EBITDA	86.7	94.3	*(8%)*
EBIT	61.3	69.2	*(11%)*

Commodity exposure

Copper and gold remain the key commodities for the region with stable copper and gold prices supporting activity in these markets. Sales to the thermal coal market were also up with the expansion of customer operations in Colombia, however this was offset by lower activity in the Q&C sector given market contraction across the region, particularly in Brazil. The economic and political instability across parts of the rest of the region led to lower GDP growth in those areas.

Volumes

Overall, explosives volumes were higher than the pcp, with varying results across the region. Operations in Colombia were up on the pcp, benefiting from the expansion of thermal coal customer operations following new capital investment. Volumes in Peru were down despite increased demand from existing customers, as a result of contract losses in 2016. Restricted activity in Venezuela stemming from recent economic challenges also negatively impacted volumes. Across the AN product portfolio there was a positive shift into emulsion products, boosted by successful value led customer propositions, specifically in Chile and Peru.

Cyanide volumes were ahead of the pcp with higher operational demand in Peru from existing customers, as well as market share gains from new contracts.

EBIT performance drivers

Whilst volumes increased on the pcp, the impact of unfavourable product sourcing and plant costs, and pricing pressure on explosives contracts resulted in a decline in EBIT.

Volume, mix and margin was favourable to the pcp as a result of increased product volumes and a technology-led upsell strategy of products and services. Business improvement initiatives across procurement activities and logistics also contributed to a favourable outcome. This benefit was offset by unfavourable product sourcing and plant costs following the closure of the Antofagasta packaged explosives plant in Chile in September 2016. As a result of the explosion at this plant, a full review of safety was performed at all plants in the region, leading to a decision to temporarily reduce the output from other plants to further improve safety standards. This has placed increased pressure on sourcing costs across North and Latin America as the region temporarily sourced alternative products.

Price resets and contract renewals had a significant negative impact, despite a high contract retention rate, due to continued pricing pressure across the region given the oversupply of AN. Going forward, pricing is expected to remain challenging as supply in the region outweighs demand.

Europe, Africa and Asia

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	570	556	3%
Emulsion as a % of total volumes	*90%*	*88%*	*2pts*
Total sales revenue	1,026.3	1,141.3	*(10%)*
EBITDA	132.9	151.7	*(12%)*
EBIT	101.7	116.5	*(13%)*

Commodity exposure

Sales into gold markets across Europe and Africa were ahead of the pcp, buoyed by stable gold prices. Sales into the Q&C markets were down due to lower demand from central Europe, the Middle East and Asia, impacted by divestment activities in 2016 as well as project delays and lower tunnelling activity respectively. Sales into coal markets increased due to a ramp up in production in Mozambique, and growth in Kazakhstan.

Volumes

Explosives volumes were up by 3% despite the divestment of central European businesses in September 2016. Europe's operations benefited from the continued recovery in regional markets and from growth in existing customer operations, particularly in the Commonwealth of Independent States (CIS), Norway and Estonia. Despite the loss of a full service contract in the second half of 2016, robust demand in Southern Africa partially mitigated this impact. Following the completion of major projects in South East Asia, activity in tunnelling markets was lower this year, while a slow-down in customer mining activity impacted volumes in the Philippines. The lower tunnelling activity also impacted on EBS sales with volumes down on the pcp.

Cyanide volumes were down on the pcp primarily driven by the loss of a contract in Africa.

EBIT performance drivers

Lower plant utilisation and higher product sourcing costs following a fatal explosion at Gyttorp in Sweden, together with weaker cyanide volume and margin, lower activity in tunnelling markets and divestments in 2016 have adversely impacted EBIT. This has been partially recovered through higher volumes than the pcp and business improvement initiatives. Overall EBIT is down 13% versus the pcp.

Volume, mix and margin was positively impacted by growth in AN and emulsion volumes in Southern Africa and Europe as a result of strengthening demand and increased market share respectively. Additionally, business improvement initiatives, including product rationalisation and supplier renegotiations have helped reduce the operational cost base. This was, however offset by the unplanned outage in Gyttorp following the tragic plant explosion in May 2017. As a result of this explosion a full review of safety was performed which resulted in lower plant utilisation and temporary higher alternate product sourcing costs. Additionally, the divestment of central European and Thai businesses in late 2016, lower cyanide volumes and margins, and the loss of a full service contract in Africa in 2016 had a negative impact against the pcp.

Price resets and contract renewals had a negative impact, largely in Africa as competitors sought to maintain and improve plant utilisation through lower pricing. Despite this, prices were maintained or improved across Europe and Asia. Pressure on cyanide pricing as a result of global oversupply has seen realised prices decreasing, thereby impacting cyanide margins.

Minova

Year ended 30 September	2017	2016	Change %
Steel products (‘000 tonnes)	129	111	*17%*
Resins & Powders (‘000 tonnes)	127	113	*12%*
Total sales revenue	455.6	406.5	*12%*
EBITDA	22.2	15.2	*46%*
EBIT	13.1	0.1	*>100%*

Sector & Industry exposure

Minova is a provider of chemical and mechanical earth control products, adhesives and ground support solutions for the underground mining, construction, tunnelling and civil engineering industries.

Sales into the Australian coal market have strengthened over the pcp, on the back of regained market share. Conditions in the North American and European coal markets have remained difficult. This has been partially offset by diversification into non-mining markets and expansion into offshore markets, particularly India, aided by growth in the civil market.

Overall revenue has grown over 12% compared to the pcp, as Minova wins new contracts and continues to rebuild the brand equity and customer confidence.

Volumes

Sales volumes were up over the pcp due to increased market share in the hard rock and coal businesses in Australia and in the construction and coal businesses in the Americas. Demand in Europe is lower as a result of rationalisation of the coal industry in Poland, the UK and Germany.

Performance summary

EBIT performance has improved from the pcp, benefiting from the divestment of a business in China in the first half of 2017 of $8 million and lower depreciation expense. Australia operations continued to benefit from higher demand and recovery of market share for stabilisation and ventilation services with coal customers. Non-coal markets in Canada and Latin America have grown, while challenging conditions persist in the core US coal market which are constraining margins. Improving pricing and reducing input price exposure are key focus areas of this business segment. The European coal market has also negatively impacted results, despite stabilising results in non-mining markets across the region.

Diversification into non-coal markets and improving margins is critical to Minova’s long-term success and will remain key priorities going forward. The business has increased its cost base particularly to enhance commercial and technical capability, to underpin targeted market growth and the re-establishment of wider market presence. The business turnaround continues to progress, but at a slower pace than expected.

Global support

Year ended 30 September	**2017**	**2016**	**Change %**
EBIT	(72.0)	(55.2)	*30%*
Adjusted for:			
Net gain on asset sales	7.5	12.9	*(42%)*
Environmental provision	-	(15.0)	*(100%)*
Adjusted EBIT	**(79.5)**	**(53.1)**	***50%***

EBIT

After adjusting for asset sales and environmental provisions, Global Support EBIT was unfavourable to the pcp largely due to costs associated with business improvement initiatives that are being implemented globally throughout Orica.

Asset sales in the year included the divestment of land at Bacong (Philippines).

Net interest expense

Adjusted net interest expense of $102 million was lower than the pcp, aided by lower average net debt levels.

Year ended 30 September	**2017**	**2016**	**Change %**
Statutory net interest expense	71.7	84.3	(15%)
Adjusted for:			
Capitalised interest	30.8	35.1	(12%)
Unwinding of discount on provisions	(1.0)	(3.3)	(70%)
Adjusted net interest expense	**101.5**	**116.1**	**(13%)**

Tax expense

An effective tax rate of 29.1% (pcp: 28.1%) was higher due to an increase in taxable gains on the disposal of assets and an increase in non-creditable withholding taxes, particularly on foreign dividends. This was partially offset by Orica's ability to utilise previously unbooked tax losses as well as lower derecognition of booked tax losses compared to the pcp.

Group Cash Flow

Year ended 30 September	2017	2016	Variance A$M
Net Operating cash flows	466.4	777.9	(311.5)
Net Investing cash flows (excluding Chemicals sale)	(251.2)	(145.1)	(106.1)
Net Operating and Investing Cash Flows[3]	**215.2**	**632.8**	**(417.6)**
Dividends – Orica Limited	(157.9)	(213.4)	55.5
Dividends – non-controlling interest shareholders	(7.1)	(12.3)	5.2
Adjusted net cash flows	**50.2**	**407.1**	**(356.9)**
Cash flows from Chemicals sale	(3.6)	(30.8)	27.2
Movement in borrowings and other net financing cash flows[8]	162.7	(275.3)	438.0
Net cash flows[9]	**209.3**	**101.0**	**108.3**

Performance highlights

The Group delivered net operating and investing cash flows of $215 million. This reflects the continued focus on working capital and strict adherence to Orica's Capital and Investment Management Framework. Group cash conversion at 66% has been impacted by higher sustaining capital spend as the result of scheduled plant turnarounds in Australia and Canada.

Net Operating cash flows

Net cash generated from operating activities was underpinned by earnings across the year, offset by an investment in working capital. The operating cash flows in the pcp benefited from a significant reduction in working capital across the group.

Net Investing cash flows

Net investing cash outflows comprised capital expenditure offset by cash inflows from divestments. These included the final proceeds from divestments undertaken in 2016 including land at Botany (NSW) and businesses in central Europe. Further cash inflows related to proceeds from sales of a business in China, land at Bacong (Philippines) and Orica's share in a business in the US.

Capital expenditure on the Burrup plant was $28 million, with the final cash outflow in September 2017. Scheduled plant turnarounds were completed at Kooragang Island, Carseland and Yarwun Cyanide, with an aggregate capital expenditure of $59 million. Other key capital expenditure included works on the global Mobile Manufacturing Unit (MMU) fleet, spend on the new SAP system and the roll-out of the new Bulkmaster 7 model in Australia.

Debt Management and Liquidity

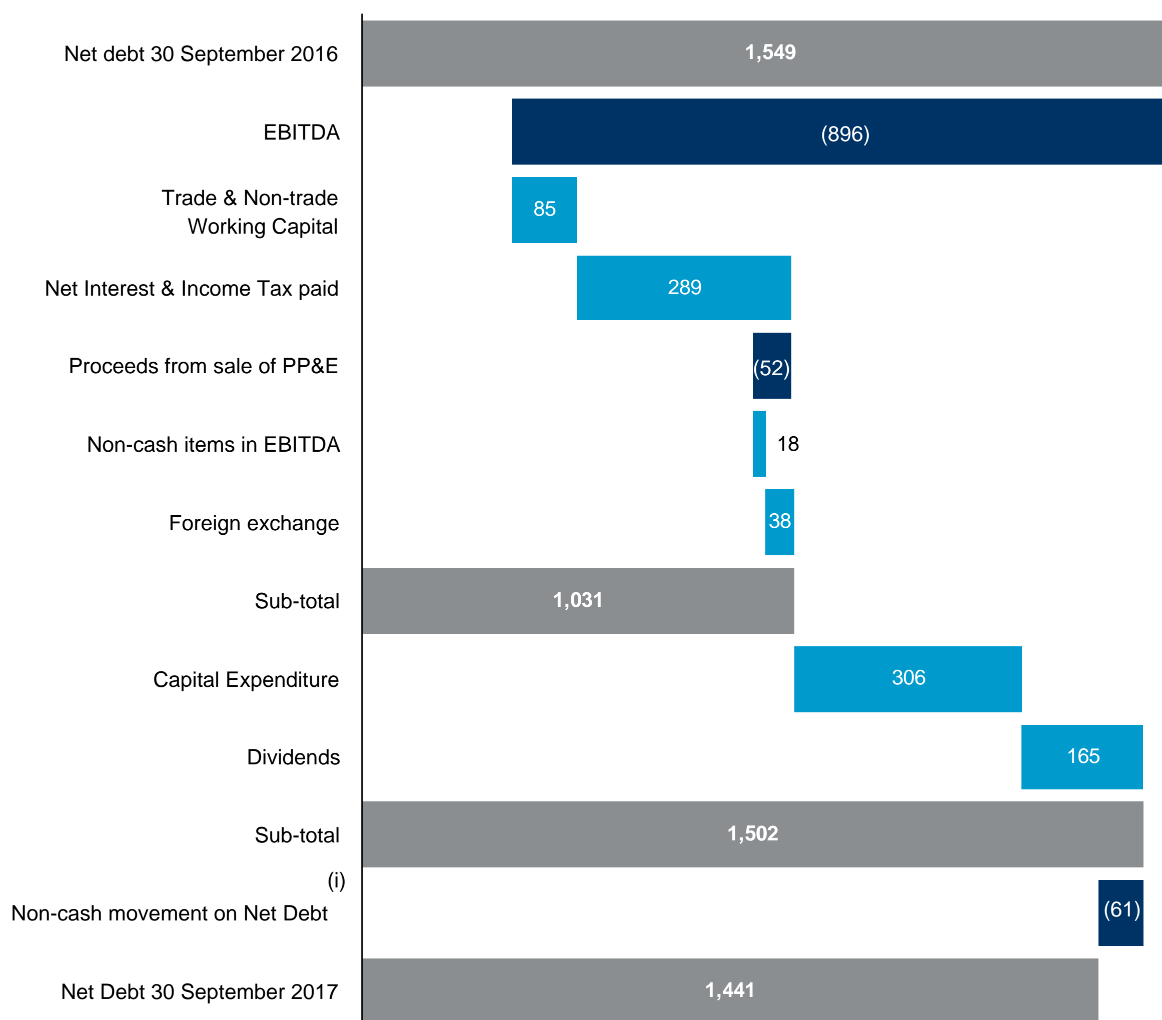
	2017	2016	Variance A$M
Interest bearing liabilities	1,957.8	1,877.4	80.4
Less: Cash and cash equivalents	516.9	328.0	188.9
Net Debt[5]	1,440.9	1,549.4	(108.5)
Gearing %[6]	32.7%	35.8%	(3.1pts)

Interest bearing liabilities of $1,958 million comprises $1,828 million of US Private Placements and $130 million of committed and other bank facilities. The average duration of drawn debt is 6.1 years (2016: 5.4 years).

Undrawn committed bank facilities of $1,579 million, with total committed debt facilities of $3,530 million providing for a strong liquidity position.

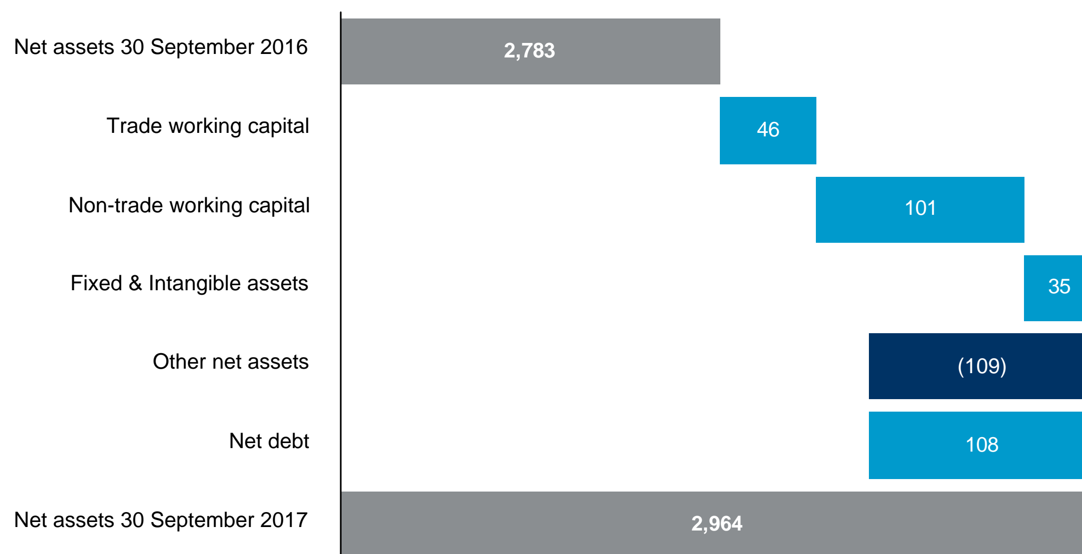
Gearing is at 32.7% and since September 2016, has reduced by 3.1 percentage points.

The chart below illustrates the movement in net debt for September 2017.



(i) Non-cash movements on Net Debt comprise foreign exchange translation

Group Balance Sheet



Performance highlights

Trade working capital[10] has increased by $46 million from September 2016, with debtors driving most of the increase. The Group remains focused on delivering sustainable improvement in working capital management initiatives.

Non-trade working capital[11] increased by $101 million, driven by the non-cash actuarial gain of $33 million on the Group's defined benefit pension plans, together with a $19 million reduction in environmental and decommissioning provisions. FY17 non-current assets include a receivable of $38 million for prepayments to the Australian Tax Office.

The increase in ***fixed & intangible assets*** of $35 million was largely due to net additions of $317 million outweighing the depreciation and amortisation expense of $261 million and a foreign exchange translation of $21 million.

Other net assets decreased by $109 million, largely from the impact of taxation and derivative financial instruments.

Dividend

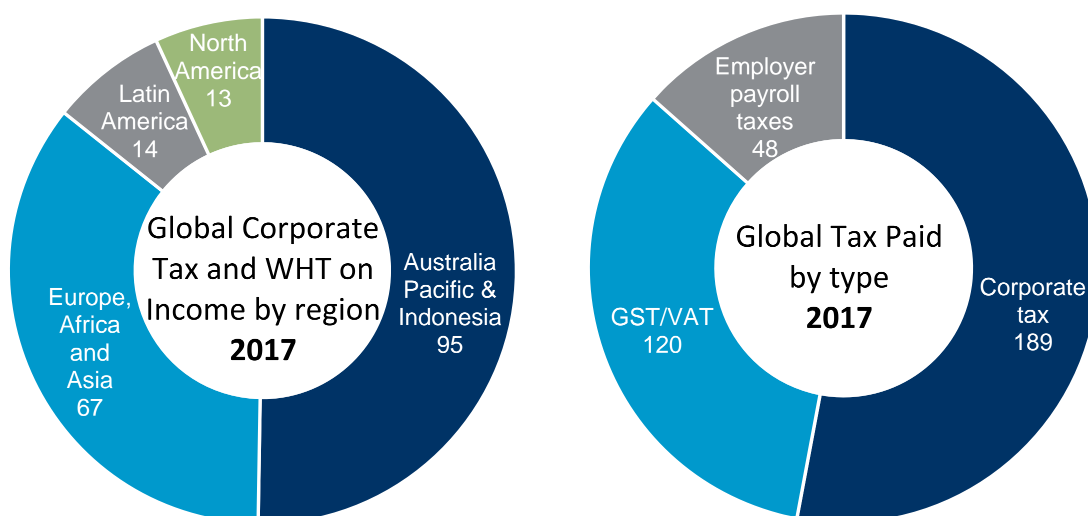
The Board has declared an unfranked final ordinary dividend of 28 cents per share. The dividend represents a payout ratio[12] of 55% and brings the full year payout ratio to 50%.

The dividend is payable to shareholders on 8 December 2017 and shareholders registered as at the close of business on 15 November 2017 will be eligible for the final dividend. It is anticipated that dividends in the near future will be franked at a rate of no more than 35%.

Tax contribution summary

In 2017, Orica paid $189 million (2016: $139 million) globally in corporate income taxes and $48 million (2016: $49 million) globally in payroll taxes. Orica collected and remitted $120 million (2016: $101 million) globally in GST/VAT.

The charts show 2017 corporate income tax paid in each region (including withholding tax and trade taxes), and an analysis of total tax paid by type.



In Australia, Orica paid $91 million (2016: $51 million) in corporate income taxes, $17 million (2016: $17 million) in payroll tax and $2 million (2016: $3 million) in fringe benefits tax. Orica collected and remitted $48 million (2016: $45 million) in GST and $92 million (2016: $97 million) in 'pay as you go' withholding taxes.

Burrup

Mechanical commissioning of the plant has been completed with the plant meeting all environmental requirements at nameplate capacity and design efficiency. All the necessary Commonwealth approvals to commence production have now been received, with final State government approval expected in the first half of FY18. Operational plans remain unchanged, with a focus on campaign production in line with market demand.

The Burrup plant is a 30-year asset, strategically located in the Pilbara region in Western Australia, a market with a strong growth profile.

2018 Outlook

There will be a continued focus on business improvement initiatives that improve profitability and shareholder value.

Key assumptions for FY18 are:

- Global AN product volumes in the range of 3.65 million tonnes ± 5%.
- FY17 headwinds to extend into FY18:
    - ~$50 - $55 million impact from contract rollovers and FY17 price resets flow on; and
    - ~$10 million flow on impact from FY17 increased input costs from previously negotiated contracts
- Increased investment in Technology R&D and IT of ~$40 million
- FY17 business improvement initiative benefits and expected FY18 new business improvement initiatives to offset above headwinds and support increased investment for the future
- Capital expenditure will be at the upper end of stated range of ~$300 - $320 million.
- Increased depreciation and amortisation post Burrup commissioning.
- Effective tax rate (excluding individually material items) to be marginally higher than FY17.
- Following completion of the Burrup plant, interest will no longer be capitalised, resulting in an increased interest expense.

Footnotes

The following footnotes apply to this results announcement:

(1) Equivalent to profit/(loss) before financing costs and income tax in Note 1(b) within Appendix 4E – Preliminary Final Report

(2) Equivalent to profit after income tax expense before individually material items attributable to shareholders of Orica Limited disclosed in Note 1(b) within Appendix 4E – Preliminary Final Report

(3) Equivalent to net cash flows from operating activities and net cash flows used in investing activities (as disclosed in the Statement of Cash Flows within Appendix 4E – Preliminary Final Report), excluding Chemicals sale

(4) Comprises total payments for property, plant and equipment and intangibles as disclosed in the Statement of Cash Flows within Appendix 4E – Preliminary Final Report

(5) Total interest-bearing liabilities less cash and cash equivalents as disclosed in note 3 within Appendix 4E – Preliminary Final Report

(6) Net debt / (net debt + total equity)

(7) EBIT before individually material items plus Depreciation and Amortisation expense

(8) Equivalent to net cash used in financing activities (as disclosed in the Statement of Cash Flows within Appendix 4E – Preliminary Final Report) excluding Dividends paid to Orica ordinary shareholders and non-controlling interests

(9) Equivalent to net increase in cash held disclosed in the Statement of Cash Flows within Appendix 4E – Preliminary Final Report

(10) Comprises inventories, trade receivables and trade payables disclosed in the Balance Sheet within Appendix 4E – Preliminary Final Report

(11) Comprises other receivables, other assets, other payables and provisions

(12) Dividend amount / NPAT before individually material items

Forward-looking statements

This announcement has been prepared by Orica Limited. The information contained is for informational purposes only. The information contained in this presentation is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. This announcement has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person.

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Past performance is no guarantee of future performance.

Non-International Financial Reporting Standards (Non-IFRS) information

This report makes reference to certain non-IFRS financial information. This information is used by management to measure the operating performance of the business and has been presented as this may be useful for investors. This information has not been reviewed by the Group's auditor. The 2017 Half Year Results presentation includes non IFRS reconciliations. Forecast information has been estimated on the same measurement basis as actual results.

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